

Presented to

Universal Service

Federal/State Joint Board  
Commissioners and Staff

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# Introduction

- Formed in 1983 at the direction of the Federal Communications Commission (FCC)
  - Not-for-profit membership corporation (includes all ILECs)
  - Governed under FCC Part 69 Rules
- Key responsibility — filing interstate access tariffs on behalf of approximately 1,200 telephone companies
  - Includes operation of revenue pools
  - Average Schedule Development
  - Tariff 4 (Wire Center Data)
- Additional responsibilities include
  - High Cost Loop Data Collection
  - Telecommunications Relay Service Fund Administration

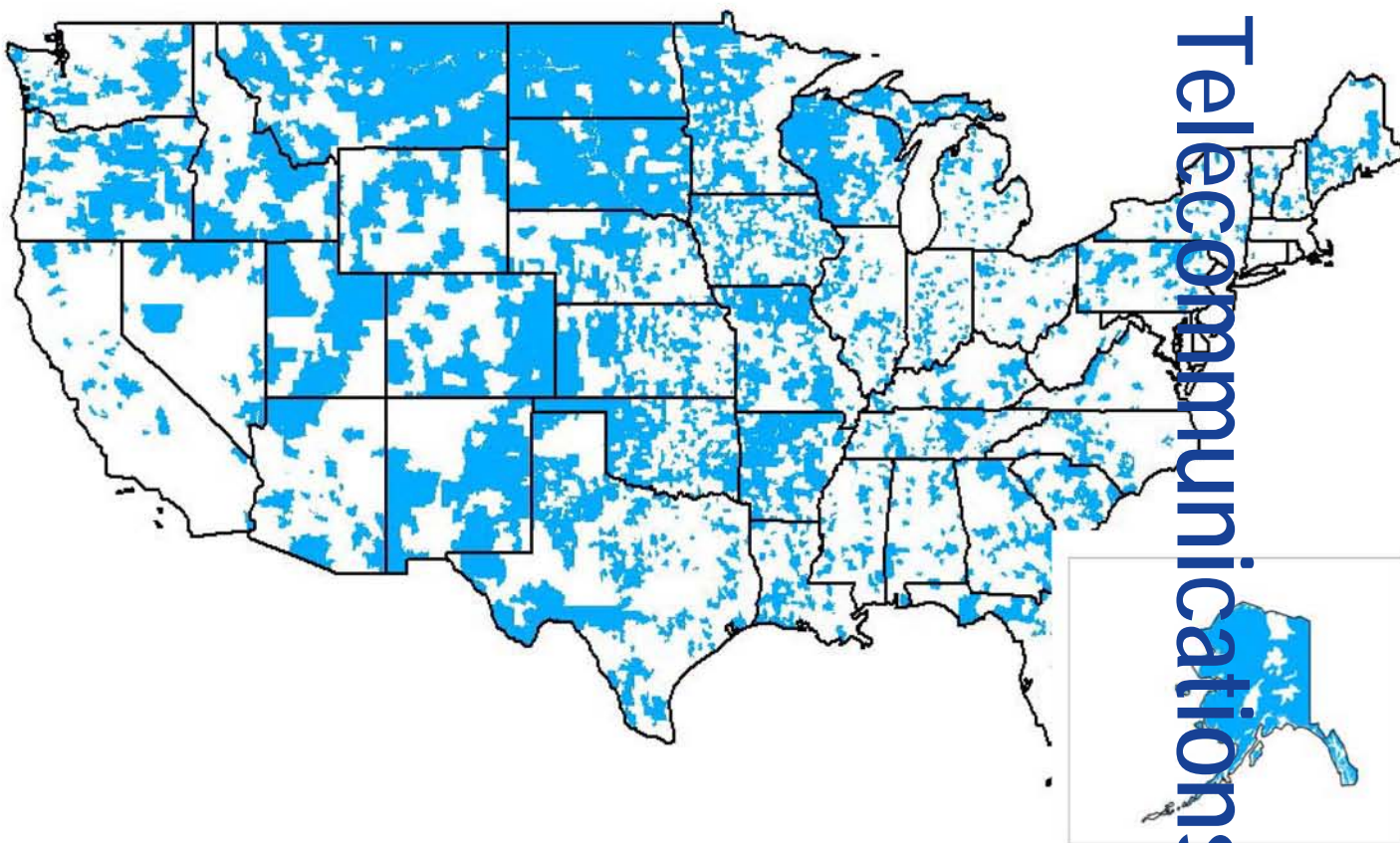
# Introduction

- 15 member Board of Directors
  - 10 Telco Directors
  - 5 Non-affiliated Directors
- Headquartered in Whippany, NJ
  - Seven Regional Offices
    - East
      - Whippany
      - Atlanta
      - Chicago
    - West
      - St. Louis
      - Omaha
      - Denver
      - Concord

# Interstate Access Tariffs & Pooling

- Optional participation based on annual elections
  - Two pools
    - Common Line
      - 1,249 Companies
      - 11.3 Million Access Lines
      - \$2.0 Billion Revenue Requirement
    - Traffic Sensitive
      - 1,129 Companies
      - 6.6 Million Access Lines
      - \$1.2 Billion Revenue Requirement

## NECA Common Line Study Areas - Continental U.S.A. (2005 - Quarter 1)



Source: Claritas & NECA Tariff 4

# Average Schedule Development & Administration

- Approximately half of the companies in the NECA pools have chosen to have their settlements based on Average Schedules
- Revenue distribution from the pools based on formulas, developed by NECA and approved by the FCC
- Formulas act as surrogate for cost of providing access services

# Wire Center Tariff FCC #4

- Contains extensive information about Wire Centers and Central Offices for both ILECs and CLECs
  - Including a complete list of participating carrier Company Codes and related contact information.  
(32,260 wire centers listed)
- Tariff 4 data used for
  - Ordering, Billing and Provisioning access services
  - Verifying access and private line bills
  - Customized research projects
  - Data identifying access services available at wire center

# USF High Cost Data Collection

- FCC Rules require all incumbent local exchange carriers to submit certain investment and expense data to NECA annually
  - rural carriers may update data quarterly on a voluntary basis
- NECA required to
  - Develop Study Area Loop Cost and Expense Adjustment Amounts
  - Report 5 Year Historical Trend in Loops, Loop Cost and Expense Adjustment Amounts
  - Report results of Data Collection to FCC and USAC by October 1<sup>st</sup> each year
    - NECA also provides USAC with latest view of quarterly update results
    - NECA files quarterly Non-rural wire center loop count data as well



# USF High Cost Data Collection

- NECA employs extensive validation tools
  - Data edits and analysis
  - Reconciliation to financial statements
  - Certification by Company Official
  - Account level detail reporting to FCC and USAC
- Company data are also subject to examination by
  - Internal and/or external auditors
  - State regulators
  - USAC and FCC

# USF High Cost Data Collection

- NECA performs initial edits to detect anomalous data inputs
  - Data entered into NECA's USF system are required to pass a series of hard and soft edits to test data integrity
  - Dollar and percent change tests are performed on
    - Cost per Loop
    - Estimated Expense Adjustment
    - Impact on National Average Cost per Loop
  - Range failure occurs when both dollar and percent change thresholds are exceeded for any of the three categories
- Exchange Carriers whose data fails the range testing are required to provide business reasons for range variances that exceed established thresholds



# USF High Cost Data Collection

- Reconciliation to financial statements
  - NECA procedures require that data submitted by each company be reconciled
    - Tier 1 LECs — ARMIS or Underlying financial reports
    - Non-Tier 1 LECs — Unseparated financial information supporting cost study
- Cost Study reviews
  - NECA reviews company cost studies as part of tariff responsibilities
  - Findings are used to update USF results where necessary

# USF High Cost Data Collection

- Certification by Company Official
  - FCC Rules require that a company officer or employee responsible for the overall submission sign the certification statement
  - Knowingly false submissions are subject to penalty under federal statute

# USF High Cost Data Collection

- Account detail reporting
  - NECA provides the FCC with line item detail from the annual USF data submission
  - These data can be found on the FCC's website at <http://www.fcc.gov/wcb/iatd/neca.html>
  - Any interested party can use this information to validate NECA's calculations or review data for individual companies over time.

# USF High Cost Data Collection

- Process Review
  - Management Review
  - Internal Audits
  - External Audits
  - USAC & FCC Audits

# USF High Cost Data Collection

- Management Review
  - Regional Manager must attest to having performed all of the required review steps.
  - Region USF Coordinator must verify that Manager has performed the necessary steps and that any company provided supplemental information is sufficient to support data provided
  - Region Director must attest to review work performed by subordinates

# USF High Cost Data Collection

- NECA Internal Audit of Data Collection Activities
  - Independent processing of high cost data to ensure that mechanized system produces accurate results
  - Sampling of region review efforts to ensure that appropriate reviews have been conducted
  - Reconciliation of company financial data to that submitted by carriers on a sample basis



# USF High Cost Data Collection

- External Auditor
  - NECA's external auditor independently performs the audit activities using its own sample of companies.
  - SAS 70 Type II Service Auditor's Report, includes
    - Description of controls
    - Detailed testing of the controls
    - Rendering of opinion on those controls
  - Service Auditor's Report shared annually with FCC

# USF High Cost Data Collection

- USAC and FCC Audits
  - USAC external auditor independently performs an Agreed Upon Procedures audit of the high cost data collection
  - USAC and the FCC have performed audits and conducted surveys of the NECA data collection processes
  - USAC has performed audits on a sample of exchange carriers and the FCC has plans in place to perform audits on a large sample of exchange carriers and other high cost fund recipients.

# Additional NECA Data Submissions and Analyses

- Quarterly Minutes of Use Data
- Assistance to Rural Task Force
- Access Market Surveys
- Broadband Studies
- End User Cost Recovery Study
- Analyses of Various Inter-carrier Compensation Approaches

# Where to Get More Information

- [www.neca.org](http://www.neca.org)
- Subscribe to Washington Watch (free publication)

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